

Strategy

Budget 2027 Preview: Empowering The Economy, Elevating The Rakyat And Reinforcing Fiscal Discipline

Highlights

- As the second budget under the 13MP, themed “Reaching for the Skies, While Anchored in Our Values”, Budget 2027 – scheduled to be tabled on 9 October – is expected to centre on empowering the economy, elevating the rakyat and advancing reforms. Against this backdrop, we expect a mildly expansionary yet fiscally measured budget, balancing growth priorities with fiscal discipline.
- In particular, we expect a laser focus on strengthening Malaysia’s economic fundamentals, rebuilding fiscal headroom, reinforcing social safety nets and accelerating the transition towards high-value manufacturing to lift productivity and sustain long-term growth. With GE16 increasingly coming into focus, we also expect a more rakyat-friendly tilt, with greater emphasis on alleviating cost-of-living pressures and supporting household disposable income.
- While we expect Budget 2027 to be largely market-neutral overall, domestically oriented sectors - particularly consumer, construction, property, and power & utilities - could emerge as key beneficiaries, given their direct exposure to fiscal spending, infrastructure development and domestic economic activity. Meanwhile technology, as a key enabler of Malaysia’s high-value manufacturing ambitions, should remain a structural beneficiary of continued government support.

Analysis

- **A largely market-neutral and rakyat-friendly budget.** As a continuation to the 13th Malaysia Plan (13MP), Budget 2027 soundbites are expected to create positive market vibes by: a) having improved fiscal discipline (narrowing the fiscal deficit to 3.3% of GDP); b) enhancing economic diversity (reshaping Malaysia into a high tech-driven, high-growth, high-value industrial economy); and c) improving the wellbeing of the people (higher STR/SARA assistance, targeted subsidy enhancements and supports for gig workers and civil servants). UOB Economics’ 2027 budget preview with total expenditure rising to RM445.9b (19.6% of GDP), supported by resilient oil-related revenue and stronger tax collections, while the fiscal deficit narrows modestly to 3.3% of GDP in 2027 (2026 est: 3.5%), reflects continued fiscal consolidation alongside growth support.
- **The biggest beneficiary sectors include construction and property.** We expect RM125b-135b will be allocated by the government for public development expenditure in the upcoming Budget 2027 (2026: RM131.8b including RM10b public-private investments, RM10.8b Federal Statutory Bodies and Menteri Kewangan Diperbadankan (MKD) companies’ investments, and RM30b direct domestic investment from government-linked investment companies (GLIC), public development expenditure for 2026 will be RM131.8b (2025: RM120b). We believe that the primary focus for government’s allocation will be in Johor, Penang, Sabah and Sarawak which are essential states that are attracting foreign direct investment (FDI) and driving Malaysia’s economy growth. For property, we expect the government to extend the existing 100% stamp duty exemption on first homes priced up to RM500,000, which currently expires on 31 Dec 27. The Housing Credit Guarantee Scheme has been progressively expanded over recent budgets, with government guarantees rising from RM5b in 2023 to RM20b under Budget 2026, supporting access to home financing particularly for gig workers, the self-employed and borrowers without fixed income. Potential measures could include further enhancements to existing home financing initiatives, particularly for first-time and non-fixed-income buyers.

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Current FBMKLCI: 1,700

Target end-26 FBMKLCI: 1,760

Focus Of Budget 2027

- Reinforcing resiliency of the economy while remaining pro-rakyat
- Supportive measures for the 13MP
- Growth-enhancing measures to support competitiveness
- Narrower fiscal deficit of 3.3%
 - Increased cash aids and income tax breaks for M40

Source: UOB Global Economics & Markets Research, UOB Kay Hian

Expected Measures In Budget 2027

- No new broad-based taxes; expanded reliefs (childcare, elderly care, EVs); lower tax rates/brackets for M40
- RM200 one-off cash aid for all 18+ (2 tranches: Dec 26 + 1Q27)
- Civil servants +RM500, pensioners +RM250
- Minimum wage: RM1,700 → RM1,900-2,000
- EPF/SOCSSO expansion for gig workers
- Investment incentives: JS-SEZ, advanced semiconductors, industrial/tech hubs, digital infra, public transport, water utilities, energy transition

Source: UOB Global Economics & Markets Research, UOB Kay Hian

Key Economic Assumptions For 2027

- GDP: 4.6% yoy (2026: 5.0%)
- Fiscal Deficit: -3.3% (2026: -3.5%)
- Policy Rate: 3.0% (2026: 3.0%)
- Inflation (CPI): 2.0% (2026: 2.0%)
- US\$MYR: RM4.3.95 by end-27 (2026: RM3.98)

Source: UOB Global Economics & Markets Research

Federal Government Revenue

(RMb)	2025	2026F	2027F
Total Revenue	336.1	365.0	369.9
Operating Expenditure	330.9	363.5	364.9
Current Account	5.3	1.5	5.0
Balance			
Net Dev Expenditure	79.5	76.1	79.5
Overall Budget	(75.3)	(74.6)	(74.5)
Balance			
Deficit (% of GDP)	(3.7)	(3.5)	(3.3)

Source: BNM, MOF, UOB Global Economics & Markets Research

- **Consumer — supportive measures to underpin spending.** We expect Budget 2027 to be largely consumption-friendly with potential positive measures including increased cash handouts and increased tax reliefs for the middle-income group. While broad consumption still remains slightly soft, key beneficiaries such as 99 Speedmart will benefit from the increased MySara allocations given the group managed to capture an estimated 15% of the previous one-off handout. However, we also note the minimum wage review will also likely be tabled during Budget 2027. Impact appears largely manageable, only requiring ASP adjustments of 0.3-0.5% and implementation will likely only be in 2028.
- **AI and semiconductors should remain at the forefront of Budget 2027's technology agenda,** building on the National Semiconductor Strategy, New Industrial Master Plan 2030 and Malaysia National AI Action Plan 2026-30. Potential measures could include tax incentives, grants, preferential financing, R&D support and talent-development programmes for integrated circuit (IC) design, advanced packaging, selected fabrication and semiconductor equipment players, alongside initiatives to accelerate enterprise AI adoption and strengthen domestic capabilities, infrastructure and talent across data centres.
- **Renewable energy (RE) — riding the energy transition and data-centre boom.** We also expect the Madani government to focus on green incentives, including tax breaks as a means to support the government's National Energy Transition Roadmap (NeTR). Malaysia aims to achieve net zero carbon emission by 2050. This is to be achieved with a 70% generation mix from green sources, likely solar, which is positive for renewable energy players. With a total of 13GW of data centre coming on stream within the next decade, the government recently announced the CRESS Acceleration Package with more attractive rates and a big re-rating catalyst for RE EPCC players like Solarvest, Pekat and Northern Solar. We expect a slew of CRESS contract wins to be announced in the next three months.

Action

- We maintain our end-26 FBMKLCI target at 1,760, which broadly implies - 0.5SD PE (15.6x 2026F) vs the 10-year mean of 16.2x (our bottom-up FBMKLCI target is 1,968) after earnings updates.
- Entering into 4Q26, we expect market volatility to remain elevated, as investors navigate a higher-for-longer cost environment driven by elevated oil prices amid evolving geopolitical tensions in the Middle East, alongside a rising global interest-rate cycle. Against this backdrop, we favour high-quality, large-cap domestic leaders with resilient earnings, robust cash flows and defensive characteristics, while selectively positioning in mid-cap growth opportunities with strong earnings visibility and structural catalysts.
- **Top picks:** 99 Speedmart, CIMB Group, Eco World Development, Gamuda, Greatech, Kuala Lumpur Kepong, MISC, Sunway Construction and Solarvest Holdings.

Peer Comparison

Company	Ticker	Rec*	Share	Target	Upside	Last	PE			Yield	ROE	Market	Price/
			Price	Price	To TP	Year	2025	2026F	2027F	2026F	2026F	Cap.	NAV ps
			(RM)	(RM)	(%)	End	(x)	(x)	(x)	(%)	(%)	(RMm)	(x)
99 Speedmart	99SMART MK	BUY	3.23	4.19	29.7	Dec-25	44.2	38.9	34.0	1.6	36.1	27,132.0	13.6
CIMB Group	CIMB MK	BUY	7.65	9.30	21.6	Dec-25	10.5	9.9	9.2	6.6	12.0	82,594.8	1.1
Eco World Development	ECW MK	BUY	1.95	2.70	38.5	Oct-25	15.0	11.7	10.3	4.2	9.9	6,285.6	0.9
Gamuda	GAM MK	BUY	4.84	5.25	14.1	Jul-25	27.3	25.6	21.0	2.4	10.2	28,334.3	2.2
Greatech	GREATEC MK	BUY	2.59	3.00	15.8	Dec-25	58.9	50.8	29.8	0.0	11.3	6,500.9	5.7
Kuala Lumpur Kepong	KLK MK	BUY	22.54	24.65	9.4	Sep-25	24.2	15.5	13.8	3.2	11.4	24,712.9	1.9
MISC	MISC MK	BUY	7.95	9.50	19.5	Dec-25	15.0	13.3	11.4	4.6	6.3	35,487.2	1.0
Solarvest Holdings	SOLAR MK	BUY	3.69	4.20	13.8	Dec-25	39.3	31.3	26.4	0.0	9.7	3,514.0	3.8

Source: Bloomberg, UOB Kay Hian

Pre-Budget 2027 Expectations

Sector	Wishlist/Expected Measures In Budget 2027 & Impact
Macro/General	
General	Net Positive Impact. Budget 2027 could possibly be an election Budget that balances the wellbeing of the people and SMEs while narrowing fiscal deficit Mildly expansionary budget - Higher operating and development expenditures Narrower fiscal deficit of 3.3% (vs estimated 3.5% in 2026) Potential increase in direct cash assistance Subsidy mechanism for RON95 to sustain Continuing supportive policies for key growth drivers - semiconductor and renewable energy sectors
Sector	Expectations
Automobile	We expect the government to reiterate its commitment to implementing the open market value tax, with a defined implementation timeline. The continuation of matching grant for the replacement of aging vehicle is also highly anticipated. In terms of tax incentives, the focus will be on supporting the EV ecosystem, particularly through incentives for EV charging infrastructure, while auto players are also looking for greater incentives for R&D and digitalisation.
Construction	Positive. - We expect RM125b-135b will be allocated by the government for public development expenditure in the upcoming Budget 2027 (2026:RM131.8b including RM10b public-private investments, RM10.8b Federal Statutory Bodies and MKD companies' investments, and RM30b direct domestic investment from GLICs, public development expenditure for 2026 will be RM131.8b (2025:RM120b). We believe that the primary focus for government's allocation will be in Johor, Penang, Sabah and Sarawak which are essential states that are attracting FDI and driving Malaysia's economy growth. The government acknowledges that large-scale infrastructure development remains a priority to stimulate economic growth in surrounding areas. Among projects implemented include: ECRL, Gemas-Johor Baru Double Track and Johor Baru E-ART, and Penang LRT project. The RTS Link connecting Singapore to Malaysia will also be developed. This reiterates our view that public infrastructure spending will remain strong with several mega projects coming into fruition. - Better clarity of large-scale infrastructure or mega projects are expected to benefit the Malaysian construction sector and stocks under our coverage, such as Gamuda, Suncon, IJM, MRCB, and WCT. Non-coverage stocks such as Kimlun, Econpile, HSS Engineering which are involved in public infrastructure projects may also benefit.
Consumer	Slightly positive measures expected. Potentially POSITIVE measures include increased cash handouts via the MySARA/MyKasih programme. Of the 2026 SARA of RM15b, RM2.2b is related to the RM100 one-off to all adults. However, the prime beneficiary is 99Speedmart -with its broad essential goods offering and comprehensive store network allowed it to capture an estimated 15% of one-off SARA allocations previously. Otherwise, indirect measures such as increased tax reliefs and a civil servant wage increase could help stimulate consumer sentiment by boosting discretionary income. Potentially NEGATIVE measures include the expected minimum wage review. The RM1,700 minimum wage is under usual formal review by the National Wages Consultative Council – held every two years. Previous Peninsula/nationwide cycles were (2016-RM1,000 / 2019-RM1,100 / 2022-RM1,500 / 2025-RM1,700). Looking at the historical trend, a RM200-300 revision would be reasonably expected, to kick in sometime 2028. We have already modelled for a minimum wage of RM1,900 for 2028. However, for every additional RM100 beyond our assumption, the respective sensitivities to PBT is 3.6%/2.9%/3.2% for EcoShop/DIY/99SM respectively. However, it only requires a 0.4/0.5/0.3% ASP increment for a full cost pass-through.
Gaming	Neutral Measures in the casino segment. - We do not anticipate any duty or tax hike to be reported for the sector. - We expect more government initiatives to boost tourism which are mildly positive but only indirectly.
Materials	Neutral. While we do not expect any significant mega infrastructure projects to be announced, cement demand will be driven by execution of ongoing mega infrastructure projects which are set largely set to materialise in 2027. To recap, cement typically accounts for 15-20% of construction costs in such projects. Should the government expand the imposition of carbon tax towards the cement industry, the cement players are expected to pass through the additional cost by raising the ASPs accordingly. Wishlist: a) Announcement of more mega infrastructure projects.
Oil & Gas	Neutral. Industry associations like the Malaysian Oil and Gas Services Council have historically pushed for dedicated government-backed or guaranteed contract financing allocations (such as RM3b) to ease tight credit access from local financial institutions.. Another wishlist is a continued and enhanced special tax status or reinvestment incentives for strategic clusters like the Pengerang Integrated Petroleum Complex to maintain regional competitiveness. Government backing and diplomatic assistance to help local OGSE players capture international opportunities. One opportunity is that the government identified that the rebuilding of energy infrastructure in the Middle East that is estimated to be US\$42b-57b. Opportunities for Malaysian O&G services and equipment (OGSE) to assist with the rebuild of infrastructure in the region are up to RM6.1b.
Plantation	Neutral. For Budget 2027, we expect the Ministry of Plantations and Commodities to resurface its request made last year of a larger smallholder replanting budget allocation and proposal to raise the windfall profit levy. Replanting momentum (national rate rose to 3.4% in 2025) is at risk of stalling in 2026 amid rising fertiliser and fuel costs, per MPOA, which strengthens the case for a bigger allocation and a possible reinvestment allowance extension to estates. On labour, the multi-tier levy mechanism (deferred to 2026 under the 13MP) has yet to be gazetted as of mid-26, so Budget 2027 may finally be the venue for its rates and transition terms; we expect planters to push hard for sector-specific tiering or a phase-in, given the sector's foreign labour intensity of around 80% and early signals that even the lowest tier could raise levies by RM300-500/worker. Additionally, with EUDR enforcement set for 30 Dec 26, the Ministry could raise the need for fresh funding for MSPO certification and traceability support, particularly for smallholders.
Property	REHDA has proposed a special Home Ownership Campaign 2027 targeted at completed unsold residential properties, together with enhanced stamp duty relief and targeted assistance to support home purchases and inventory clearance. Separately, we expect the existing 100% first-home stamp duty exemption for homes priced up to RM500,000, currently expiring in Dec 27, to be extended further. The industry is seeking more flexible end-financing and government-backed financing mechanisms, particularly for first-time and mass-market buyers where loan approval remains a key constraint. Notably, the government is considering replacing the current blanket RM300,000 affordable-housing benchmark with a location- and income-based framework. Housing Minister Nga Kor Ming cited indicative price points of around RM500,000 in the Klang Valley vs RM300,000

	in Kelantan. If implemented, we believe this could improve project feasibility and reduce developers' cross-subsidisation burden in higher-cost urban locations. On approval process, developers are calling for greater digitalisation and incentives for construction technologies such as IBS and BIM to improve productivity and reduce development costs.
REITs	Industry players are seeking higher promotional allocations, enhanced tax incentives and greater tourism infrastructure investment, alongside continued funding to attract international business events and a dedicated allocation to develop Islamic MICE. REITs wishlist also includes reinstatement of withholding tax concession and increasing gearing threshold limit from the current 50%.
Technology	Positive. We expect AI and semiconductors to remain at the forefront of Budget 2027's technology agenda, building on National Semiconductor Strategy, New Industrial Master Plan 2030, and the recently launched Malaysia National AI Action Plan 2026-30. For semiconductors, potential support could include tax incentives, grants, preferential financing, R&D support and talent-development programmes, particularly across IC design, advanced packaging, selected fabrication activities and semiconductor equipment. For AI, we expect further measures to accelerate enterprise adoption, strengthen domestic AI capabilities and infrastructure, and deepen the local talent pool. Initiatives could also include broadening support for the infrastructure underpinning Malaysia's AI and digital economy ambitions, including data centres, cloud computing, high-speed connectivity, cybersecurity and renewable energy. While the near-term earnings spillover may remain limited, these initiatives are crucial in strengthening Malaysia's position within the global technology supply chain and accelerating its transition towards higher-value, knowledge-intensive activities. We maintain neutral on the technology sector and remain selective, favouring companies with direct AI exposure, strong earnings visibility underpinned by healthy orderbooks, and differentiated technological capabilities that are well positioned to ride the ongoing technology upcycle.
Renewables	We expect the government support to the RE sector through initiatives such as mandatory green energy supply for data centres (minimum 30% of electricity demand) and carbon market-related tax incentives, in line with the NETR's objective of achieving net-zero emissions by 2050. With Malaysia targeting a substantially higher renewable energy mix over the long term, we see a favourable demand outlook for solar deployments, benefitting solar EPCC players. Wishlist: a) reduction in SAC rates by another 5 sen/kwh to drive CRESS adoption within the RE sector, and b) extension of a RM3,000 solar rooftop installation rebates for consumers to encourage adoption of self-consumption solar generation energy.
Utilities	The government will focus on affordable electricity tariff, sheltering the rakyat from external oil and gas shocks by subsidising the domestic tariff via the KWIE fund. This is neutral for TNB from an earnings perspective. Wishlist: Provide more incentives - including tax breaks - for industries that can demonstrate that they can reduce energy consumption via energy-efficient application. This will fall under Malaysia's National Energy Efficiency Policy and Action Plan (NEEAP 2.0) over 2026-35. The NEEAP 2.0 has a target for a 11.6% reduction in national energy demand against business-as-usual projections by 2035
Telco	The Budget will likely highlight affordable fibre connectivity, a mandate that seem to be filled by Telekom Malaysia with entry level prices. Likewise, wireless players like CelcomDigi and Maxis have products that will fit the value conscious segment. We do not expect telco-specific goodies or measures in the upcoming Budget.

Source: UOB Kay Hian

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